

The Smart Guide to...

fixed and variable rates

Once we have assisted you in finding the right loan you'll have many choices. These include whether to get a fixed interest rate, a variable rate or a combination of both.

Variable Rate Loans

This type of loan generally enables you to make additional repayments. This means you could pay off your loan faster, save interest and own your home sooner.

A variable rate loan is influenced by market fluctuations.

Fixed Rate Loans

This type of loan allows you to fix the interest rate on your loan for a set period of time. Your repayments are fixed and don't change during the fixed rate period regardless of what happens to interest rates generally. When the fixed rate term expires, the loan reverts to the variable rate applicable at the time of expiry.

When considering a fixed rate loan, some lenders do not allow repayments above the minimum monthly amount without cost or restriction. For example, when making a lump sum payment beyond the lender's yearly limit or paying the fixed rate loan out altogether (which may occur if you sell the property or refinance the loan), there may be a penalty often called a 'fixed rate break cost'. Your loan contract will outline how this fee is calculated.

Split Loans

Some lenders allow you to choose a combination of fixed and variable. This means you split the loan in two or more parts. You can decide which splits are to be a fixed interest rate or a variable interest rate, and how much of the loan is in each split. It doesn't have to be divided equally.

When considering fixing your loan, ask yourself these questions:

- Will you want to make any extra or lump-sum repayments throughout the year?
- Is paying this mortgage off quickly important to you?
- Do you plan to sell the property in the foreseeable future?
- Will you want to have an offset account attached?
- Do you believe that variable interest rates will go higher than the fixed rate that is currently on offer?
- Can you afford to have fluctuating loan repayments?

Please use this information as a guide only - it is not advice. You should seek professional advice when buying a property or taking out a loan and always refer to your loan contract for full terms and conditions for your particular loan product.